

A blood bank organized and operated exclusively for scientific and charitable purposes, to provide a community with permanent facilities for the collection and storage of human blood and blood products and to provide for the public distribution thereof, may be exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

Income from the sale by the organization of blood and blood products to commercial laboratories constitutes income from an unrelated trade or business as defined in section 513 of the Code.

Advice has been requested whether a blood bank operated in the manner described below qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was formed to establish and operate permanent facilities for the collection and distribution of human blood and blood products for the benefit of the public and to conduct related research. Its charter provides that no part of the organization's net earnings may inure to the benefit of any private shareholder or individual. In the event of dissolution, its assets are to be distributed to exempt charitable, scientific, or educational organizations to be used for exclusively exempt purposes.

The organization's board of trustees is comprised predominantly of public members who are not otherwise associated with it.

The blood bank was established to help meet the needs of a community. It obtains blood from professional and volunteer donors and supplies blood and blood products to hospitals, including local and Federal government institutions, doctors, clinics, and commercial laboratories. Within the limits of its ability, it supplies blood free for indigent and charity patients. The bank serves as a free repository of blood for a local research foundation in a volunteer program jointly maintained by it and the foundation. It also provides blood to other institutions for research purposes.

Other activities of the organization include (a) collaborating with an exempt organization in a free program of blood typing of volunteer donors; (b) opening of several blood-drawing stations in the area which it serves; (c) pioneering in the development of a program to help meet the need for fresh blood in connection with the increasing use of open heart surgery as a standard surgical procedure; (d) allocating funds to a blood coagulation research program conducted jointly with an exempt research center; and (e) providing gratuitous services of an educational nature to the community. The

organization also sells blood and blood components, such as raw serums, to commercial laboratories.

Although the organization charges those who are able to pay for its services, its charges for blood and blood products are generally less than the prevailing rates charged by commercial blood distributors. Furthermore, it is committed by its charter to use all funds received for its services in excess of operating costs for the accomplishment of its declared charitable purposes, including expansion of its services as required by the community need. Likewise, it is committed to furnish services to any person notwithstanding his inability to pay. Moreover, its trustees are required to review periodically the schedule of charges to insure that they are not higher than is reasonably necessary to enable it to perform its community function.

In carrying out its purposes, the bank has a volunteer blood replacement program which enables recipients of blood to extinguish, in whole or in part, the charges they would otherwise have to pay. With some of the institutions it serves, replacement of blood is accepted on a two-for-one basis with no service charge. More usual, however, is full payment or replacement of blood on a one-for-one basis and payment of the service charge.

The blood bank's income is derived mainly from the sale of blood products and services to hospitals, doctors, clinics, and commercial laboratories. Its expenditures are for blood purchases, laboratory expenses, wages, administrative expenses, office supplies, delivery expenses, and other miscellaneous operating expenses.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

On the basis of the information set forth above, the organization serves a public purpose in a manner which qualifies it for exemption from Federal income tax as a charitable organization under section 501(c)(3) of the Code.

Section 511 of the Code imposes a tax on the unrelated business taxable income of organizations otherwise exempt from tax under section 501(c)(3) of the Code, with certain exceptions not pertinent here. Section 513 of the Code defines the term 'unrelated trade or business' as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its exempt functions.

The selling of blood and blood components, such as raw serums, to commercial laboratories is business of a kind regularly carried on for profit. Such business is not

substantially related to the purposes forming the basis for exemption of the organization. Accordingly, the selling of blood and blood products to commercial laboratories constitutes the conduct of unrelated trade or business within the meaning of section 513 of the Code, and the organization is subject to the tax imposed by section 511 of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(3) of the Code, file an application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the Income Tax Regulations.